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Medical Costs of No-Fault Automobile Insurance

Jeffrey Guilfoyle, President
Nicole Bradshaw, Research Associate

Citizens Research Council of Michigan
www.crcmich.org



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Independent Research

- CRC is a privately funded not-for profit public affairs research organization which aims to provide objective nonpartisan research on public policy topics important to Michigan.
- CRC did not receive any funds specifically related to this study
- CRC solicited input from key stakeholders for this research, but the final product is solely CRC's, and this work does not necessarily represent the views of any individual stakeholder.
- CRC's Board of Directors values CRC's independence and does not exercise editorial control over the research. The views represented in this research do not necessarily reflect the views of CRC's board members either collectively or individually



CRC Report

- *Medical Costs of No-Fault Automobile Insurance*
- Report 385, October 2013
- Available at: www.crcmich.org
- Outline:
 - Discussion of medical costs associated with no-fault auto insurance
 - Outline of potential policy to address medical costs

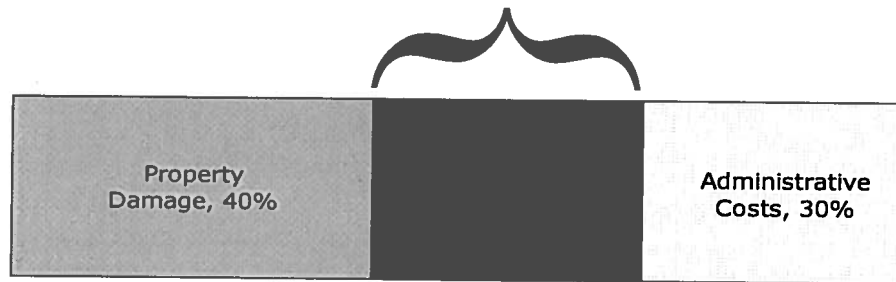


Report Objectives

- Follow-up to earlier report *Health Care Costs in Michigan: Drivers and Policy Options*, May 2013
- Determine if and how no-fault is driving health care costs
- Evaluate the benefits and tradeoffs associated with potential policy reforms



Scope of Report



Distribution of Auto Insurance Premium Costs,
National Average



Data Sources

- RAND Institute for Civil Justice, a nonpartisan, independent, research institution
- Interviews with:
 - Michigan Catastrophic Claims Association (MCCA)
 - Auto Insurers
 - Health and Hospital Association
 - Health Insurers
- Price data from independent third-party. Data collection commissioned by Insurance Institute of Michigan.
- Limited data from industry funded reports



Summary of MI's Auto Insurance

- Requires drivers to purchase personal injury protection (PIP)
- No cap on medical benefits
 - Claims above \$530K are reimbursed by the Michigan Catastrophic Claims Association (MCCA)
- Verbal Tort Threshold
 - Limits tort access to cases of death, serious bodily impairment, or serious disfigurement

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Issue Summary

- Health care costs are growing in MI and nationally
 - Recently growth slowed but often growth is faster than the rate of inflation
 - Health outcomes are not growing commensurately with the rate of spending
- No-fault insurance (PIP) is associated with higher medical spending compared to all other types of auto insurance in the U.S.
- According to RAND Institute for Civil Justice, in accidents with similar characteristics (severity, demographics) it costs 57% more to settle medical claims in Michigan.

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Drivers of Higher Auto Accident Related Medical Spending

1. Auto insurers pay higher prices
2. Auto accident victims in no-fault states use more medical services
3. Michigan offers unlimited lifetime medical benefits
4. Medical prices may be higher if health services are higher quality



Higher Prices

- Medical prices paid by auto insurers are higher than Medicare, workers' compensation insurance, and most likely private health insurers
 - Supported by data and interviews with stakeholders
- Most payers are charged the same, but many pay less than the amount charged
- MI's Insurance Code states that providers may charge auto insurers an amount that does not exceed the amount *customarily charged*
 - *Munson Medical Center v. Auto Club Insurance Association* held that auto insurers must pay the amount they are charged, regardless of whether the provider routinely accepts less from other payers.



Medical Service Use

- Victims and their medical providers submit claims for more services than in other states
- Auto insurers cover all “reasonably necessary” products, services, and accommodations
 - Typically a high threshold for care
 - Other insurance has more specific criteria

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Unlimited Lifetime Medical Benefits

- MI is only state with no cap on medical benefits
- MCCA has limited ability to contain costs
- The number of new cases each year is increasing
- More cases are being opened than closed each year

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Quality Insurance

- A higher quality auto insurance product could also explain higher costs. May explain:
 - Higher premium costs, generally
 - Higher medical spending if better and more comprehensive care is provided
- Consumers of no-fault are slightly more satisfied with the amount and speed of their no-fault reimbursement compared to tort systems
- We do not have information on whether victims are attaining better health outcomes

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Policy Options to Address Medical Costs and Spending



1. Fee Schedule

- **Benefits**
 - Set an industry standard for prices that would be lower than what is paid now
- **Tradeoffs**
 - Government may find it difficult to ascertain the correct level for prices, potentially creating problems for consumers and providers

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2. Increase Number of Health Insurers as Primary Payers

- Currently, policyholders can elect to coordinate auto insurance with health or disability insurance
- **Benefits**
 - Health insurers pay lower prices on average than auto insurers
- **Tradeoffs**
 - Shifts costs to health insurer
 - Auto insurers still cover services not reimbursed by health insurers
 - Many policies are already coordinated so savings may be small

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3. Auto Insurers Pay Amount Customarily Received

- Change insurance code to allow auto insurers to pay an amount other than what is customarily charged
- Benefits
 - Puts auto insurance prices in line with other payers
- Tradeoffs
 - Lower prices may create fiscal pressure on providers and how they will react will vary by provider

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4. "Add-on" PIP

- Would create a tort system with either mandatory or optional PIP that is "added-on"
- Benefits
 - States with add-on PIP have lower medical spending
 - May prevent victims from using more medical care to prove a more serious injury in order to gain access to tort
- Tradeoffs
 - Why medical spending is less under "add-on" is uncertain
 - May increase access to tort system
 - Difference may not be as dramatic in MI where accident victims may not be incentivized to increase spending to gain access

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5. Create a Choice System- No-fault or Tort

- Customers choose between more expensive tort system and less expensive no-fault system
- Benefits
 - May provide better value for customers who do not want access to tort system
- Tradeoffs
 - Would increase number of tort cases
 - Policyholders who choose tort system would not have access to many of the same benefits as no-fault customers

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6. Customer Choice in PIP Coverage Level

- Allow auto insurers to offer several choices in the level of PIP coverage
- Benefits
 - Levels can be set in ways that would cover most accidents
 - Customer choice may reduce costs for those sensitive to premium prices
- Tradeoffs
 - Some policyholders will underinsure themselves and will have to rely on other sources to cover medical expenses

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7. Dollar Tort Threshold

- Benefits
 - States with dollar tort thresholds have lower medical cost levels
- Tradeoffs
 - Only three states have verbal thresholds
 - More research should be done to explore correlation

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8. Give Auto Insurers Additional Tools to Contain Costs

- Currently, auto insurers have limited ability to contain medical spending
- Benefits
 - To reduce costs, auto insurers can utilize many of the same tools as health insurers
- Tradeoffs
 - Depending on how implemented, could increase cost-sharing and reduce scope and scale of care for auto accident victims

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9. Medical Benefits Cap

Benefits

- Reduces costs associated with catastrophic care

Tradeoffs

- Those whose claims exceed the cap would rely on public (Medicaid and/or Medicare) or private health insurance

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10. Medical Costs Paid by Health Insurers

Benefits

- Health insurers pay lower prices for the same services

Tradeoffs

- Will reduce the scale and scope of medical benefits for most accident victims
- May result in higher health insurance premiums

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11. Reinstate a Tort Insurance System

- Benefits
 - Medical prices and service use are lower under tort systems
- Tradeoffs
 - Would result in an entirely new auto insurance system with a different set of benefits and weaknesses

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Final Comments

- Research shows that medical claims for auto accidents cost 57% more in MI than for similar crashes in other states
- CRC's paper outlines policy options that can potentially be used to lower these costs
 - CRC is not making a specific policy recommendation with respect to no-fault insurance reform
- This report outlines potential benefits of each of these reforms. There is uncertainty regarding the degree to which benefits will materialize if these reforms are implemented.
- While these reform options will address MI's higher spending on auto accident related medical costs, the policy options involve tradeoffs that policymakers should keep in mind.

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Thank you!

Questions?